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**Sudan Agricultural Enterprise
Finance Program (AEFP)
TENTH QUARTERLY REPORT
January 1, 2005 – March 31, 2005**

Submitted by:

Chemonics International

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EXECUTIVE SUMMARY

In September 2002, Chemonics International was awarded the Southern Sudan AEFPP contract, a 5-year effort to establish a self-sustaining micro-finance institution (MFI) in Southern Sudan and provide access to working capital for micro-entrepreneurs. AEFPP is a key part of the \$22.5 million Southern Sudan Agricultural Revitalization Program (SSARP), which is managed by the USAID Sudan Field Office

Key AEFPP accomplishments and activities during this reporting period:

- Begin outreach & borrower group formation in Rumbek
- Complete office construction in Rumbek
- Continue to extend group loans in Yei, Yambio and Maridi
- Extend group loans in Rumbek
- Initiated research into third loan product
- Sent SUMI staff for training in Delinquency Management and Loans Monitoring
- Finalized the board constitution and by laws

For the eleventh quarter, April 1 – June 30, 2005, the major AEFPP activities will be to:

- Expand outreach & borrower group formation in Rumbek
- Continue to extend group loans in Yei, Yambio and Maridi
- Continue to extend group loans in Rumbek
- Research a third loan product and prepare for pilot testing
- Recruit members to SUMI general assembly

A. Background

The Agricultural Enterprise Finance Program (AEFP) is a key part of the 5-year \$22.5 million Southern Sudan Agricultural Revitalization Program (SSARP), which is managed by the USAID Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA), in close consultation with agriculture advisors based in USAID/Washington. The other SSARP components include the establishment of six agricultural training centers and a data collection and analysis center.

These other activities are implemented by the Catholic Relief Services (CRS) Consortium – comprised of CRS, Winrock International, Veterinarians sans Frontiers-Belgium (VSF-Belgium), and SUPRAID (a Sudanese NGO) – through a competitively awarded cooperative agreement. Additionally, a Participating Agency Service Agreement (PASA) with USDA provides supplemental technical support and other resources to the SSARP through a pilot activity fund. This document serves as AEFP's tenth *Quarterly Performance Report*, covering the period January 1, 2005 through March 31, 2005. It also describes work planned for the coming quarter.

The Agricultural Enterprise Finance Program (AEFP) is in the process of establishing a viable, self-sustaining financial services organization in Southern Sudan in order to provide access to working capital for micro-entrepreneurs. The activity directly supports aspects of REDSO/ESA's 3-year interim strategy for Sudan under Strategic Objective number 8 (SO8), "Foundation Established for Economic Recovery." It specifically supports Intermediate Result 8.2 and 8.3, "Market Support Institutions Created and Strengthened" and "Market Support Programs and Services Introduced and Expanded." SO8 is one of the four objectives that comprise USAID's Sudan Integrated Strategic Plan, 2003-2005.

Established in June 2003 and opened for business in September of the same year, the Sudan Microfinance Institution (SUMI) is designed to foster expanded economic opportunity among Southern Sudanese and constitute an added incentive for Internally Displaced People (IDPs) and refugees to return to their homes through the provision of micro financial services. During the first phase (five years) of the MFI's development, a microfinance loan program is being launched, which began with a group-based loan product in Yei, South Sudan. As it matures, the MFI will test various loan products, based on both client demand and repayment experience. A salary loan product was developed and successfully released in Yei in June 2004. Later, through a careful analysis of the willingness and capacity of borrowers to repay, it will be determined whether the MFI should diversify and offer some larger-sized loans to small businesses. Cost-recovering interest and fees are being charged by the MFI in order for it to fully cover operational costs by the end of the fifth year of the project.

USAID will determine the disposition of the loan capital fund at the end of Phase I, but anticipates that a successfully operating microfinance institution will be allowed to retain the fund as its loan capital, if AEFP objectives have been achieved and are likely to be sustained in the future.

AEFP is intended to support individual agribusiness entrepreneurs, very broadly defined, in all agriculture sub-sectors, including qualified applicants that have graduated from the training centers to be supported by other components of the Southern Sudan Agriculture Revitalization project. Women will constitute a special target group for micro-lending services. To increase the likelihood of sustainability through achieving some economy of scale, people in regional population centers will be the main beneficiaries of Phase One.

AEFP Oversight. The Southern Sudan Agricultural Enterprise Finance Program (AEFP) is guided by the SSARP Program Steering Committee. This committee meets biannually and identifies focal areas for program coverage and formulates and concurs with major policies that guide the program. The 10-member Program Steering Committee is comprised of USAID, Natural Resources Management and Utilization Committee (NRMUC), the Development Assistance Technical Team (DATT), and the Southern Sudan Commissioners of Agriculture and Animal Resources, Wildlife and Tourism, Finance, Commerce, Education, Health, and Women and Family Affairs.

Additionally, AEFP receives guidance and support on implementation matters from a Technical Task

Force (TTF). The 17-member TTF meets quarterly and is comprised of representatives from the Southern Sudan Departments of Agriculture, Forestry, Fisheries, and Livestock; representatives from the Secretariats of Wildlife and Tourism, Commerce, Finance, and Women and Family Affairs; representatives from the Nuba Mountains and Southern Blue Nile regions; DATT; NRMUC; the Data Center; USAID; and the Chiefs of Party from Chemonics and CRS.

B. Expected Results

Under its 5-year contract as the implementing contractor, Chemonics International has committed to establishing a self-sustaining microfinance institution (MFI) in Southern Sudan that will achieve the following performance measures by the end of Phase One:

1. \$3 million in loans by the end of the fifth year;
2. 100 percent operational sustainability, through complete coverage of operating costs of administration and expendable supplies; and
3. At least three loan products available to clients by the end of the fifth year.

To reach these results, Chemonics is also intent on assisting the new Sudanese MFI, SUMI, to meet the following operational and social development parameters:

1. 50 percent of loans made to women
2. 10 percent of loans made to reintegrated internally-displaced persons (IDPs) and returned refugees

While adhering to a strict financial systems model of microfinance services delivery, these social development parameters have been fully incorporated into SUMI's initial mission statement and business plan.

C. Year Three: Current AEFP Activities

During its third year of operation, the Agricultural Enterprise Finance Program (AEFP) will continue to focus on continued development of SUMI's institutional and operational systems, physical infrastructure, training, and human resources necessary to expand operations successfully. Running from October 1, 2004 through September 30, 2005, the Year Three activities are divided into six program sub-components:

1. Establishing and developing SUMI's operations
2. Expanding SUMI's geographic coverage
1. Developing additional loan products
2. Training
3. Microfinance policy and regulation
4. Program management and reporting

Below, each of the AEFP subcomponent activities are summarized, highlighting tasks accomplished in the tenth Quarter (January 1 – March 31, 2005), and tasks planned for the Eleventh Quarter (April 1 – June 30, 2005) as contained in the third year work plan. The task numbering corresponds to the task numbers for each activity in the annual work plan. The Year Three Work Plan Chart is included for reference in Annex A of this document.

C1. Subcomponent 1: Establish and Develop MFI Operations

Establishing and developing SUMI's operations will be the central task of program activities for year three. This will include community outreach in each of the communities where branches are opened, borrower group formation and training, development and institutionalization of the MFI operations systems (including the drafting of an operations manual), and the development of an integrated MIS system for multiple branches. Finally, it will also include capacity development of the MFI Board of Directors.

Subcomponent 1: Tasks completed in the Tenth quarter, January 1 – March 31, 2005:

Task 1.1: Continue community outreach and borrower group formation in Yei.

SUMI staff has continued with community outreach and borrower group formation in the town. A total of 802 clients are accessing group loans in Yei town. There is a slight drop of 20 clients from the last quarter mainly arising from clients who have exited and those that have been expelled due to default or non adherence to policies.

During the reporting period the Yei branch of SUMI, expanded its operations to cover Ombasi which is approximately 18 miles from Yei through Kegulu. There is a busy market there with active market days on Mondays, Thursdays and Saturdays. The main activities include agricultural produce (especially maize) retail sales shops, food kiosks, drug stores, flour dealers, second hand cloth dealers and breweries. No wholesaler was identified. Purchases are mostly done in Yei and Congo and transported on bicycles. This area is active in agriculture and a good percentage of the maize supplying Yei comes from Ombasi.

The businesses counted (on a normal market day) were about 150 with women making up only 15% of the business owners. The women deal primarily in flour, fish sales, breweries and other food items. Presently SUMI had recruited 73 clients here -- 62 male and 11 female.

Task 1.2 Begin outreach and borrower group formation in Rumbek.

The Rumbek branch opened a month late owing to difficulties finding temporary office space. (Rumbek has seen a dramatic increase in NGO and international organization activity in recent months, as well as relocation of temporary SPLM offices.) Despite the late start, the staff in Rumbek were able to start outreach and borrower group formation, during the quarter. The response was overwhelming and the branch has had to deliberately slow down to ensure quality. At the close of the quarter the branch had registered 228 clients.

Task 1.3: Board of Directors meeting and capacity development.

The SUMI Board of Directors with the facilitation of an external consultant held a two day workshop to develop a new constitution for SUMI. A draft constitution was developed. One of the major issues arising out of this training was the need to change the board from being a founder board to an elected board. This will involve developing a general assembly and identifying new candidates for board membership to create a more geographically diverse membership and recruit financial services expertise for the Board.

Task 1.4: Begin community outreach and borrower group formation in Yambio and Maridi.

The Maridi and Yambio branches continued community outreach and borrower group formation. By the end of this quarter Maridi had registered approximately 339 clients, while Yambio had registered a total

of 361 clients.

Sub-component 1: Tasks to be completed in the Eleventh quarter, April 1 – June 30, 2005:

Task 1.1: Continue community outreach and borrower group formation in Yei.

SUMI staff will continue outreach and borrower group formation in Yei and Ombasi outstation. This activity will continue indefinitely.

Task 1.2 Continue outreach and borrower group formation in Rumbek.

SUMI staff will continue outreach and borrower group formation in Rumbek. This activity will continue indefinitely.

Task 1.3: Board of Director Meetings and capacity development.

The Board of Directors will hold their regular quarterly meeting to discuss SUMI operational issues.

Task 1.3. Continue community outreach and borrower group formation in Maridi and Yambio.

SUMI staff will continue outreach and borrower group formation in Maridi and Yambio. This activity will continue indefinitely.

Task 1.4: Work out integrated MIS system for multiple branches.

The AEFPP team is researching appropriate banking MIS applications. The installation of the system will be done during by the Twelfth quarter subject to the AEFPP contract modification.

Task 1.5: Finalize SUMI Constitution with expanded Board of Directors.

The board will have another workshop during the quarter to finalize the constitution and by laws. In addition, the board will also start developing a listing of organizations and individuals that may be invited to join the General Assembly.

C2. Subcomponent 2: Expand MFI Geographical Coverage

During year three of the program, the AEFPP team will assist the SUMI staff and Board of Directors to expand operations to the fourth community, Rumbek. Client recruitment and saving mobilization is expected to start during this quarter while lending in the fourth community will start in the eleventh quarter.

Subcomponent 2: Tasks completed in the Tenth quarter, January 1 – March 31, 2005:

Task 2.3: Complete construction of the Maridi branch office.

Construction of the Maridi office was completed during this quarter and the office is now in use.

Task 2.4: Identify office space for 4th MFI office.

Land for the construction of the 4th office was identified, acquired and construction was still in progress at the close of the tenth quarter. The construction is scheduled for completion in April 2005.

C3. Subcomponent 3: Develop Loan Products

Using the information gathered in the micro enterprise market survey, at least two pilot loan products were developed in year two of AEFPP. The first two loan products are a group-based loan product and a

salary -guaranteed loan product available to employees of NGOs and other institutions in the communities where SUMI branches have opened. In year three, a third loan product will be introduced, likely an individual loan product aimed at larger micro enterprises with greater capital needs, and some form of collateral. However, it will first be necessary to carefully analyze the local legal framework in place that will be used to enforce loan repayment and collateral collection. This analysis will be used to create the legal loan document that the borrower will sign, as well as the procedures to be followed in giving these larger, riskier loans. If an individual loan product is not feasible, the research will be used to develop an alternative loan – possibly a group-based larger loan product.

Subcomponent 3: Tasks completed in the Tenth quarter, January 1 – March 31, 2005:

Task 3.2 Extend Group Loans in Rumbek.

The AEFP team assisted the newly recruited staff of Rumbek branch to sell the group loan product to the business community in Rumbek. As of the end of this quarter, Rumbek branch had registered approximately 228 clients.

Task 3.4: Pilot test and extend employer-guaranteed loan product in Yei.

Yei branch continued to expand its salary loan portfolio. The salary loan portfolio increased significantly during the quarter because January is normally the month that most salary loan clients are issued with new contracts.

Task 3.5: Extend employer-guaranteed loan product in Yambio and Maridi branches.

Both the Yambio and Maridi branches continued expansion in their salary loan portfolio, although the market in these two areas is much smaller than Yei which has a larger share of NGOs.

Task 3.6: Research and develop potential individual loan product.

SUMI management initiated the development of an individual loan product mostly as a reaction to client pressure. The individual loan product is being pilot tested in Yei and Yambio. The product targets those individuals who have businesses worth millions of shillings and have essentially outgrown the group loan scheme which may be constraining to a dynamic, fast growing business.

Some of the pre-qualification requirements include:

- A viable and registered business that has been in existence for at least a year,
- Some form of collateral to be pledged as security for the loan.

Some of the securities accepted include developed land that has been certified by the local administration, logbooks for both vehicles and motor bikes other assets like generators, grinding mills, powers saws and other machinery with a market value and supported by the original purchase agreement

So far 20 clients have benefited from this pilot loan product.

Subcomponent 3: Tasks to be completed in the Eleventh quarter, April 1 – June 30, 2005:

Task 3.2: Extend group loans in Rumbek.

Loan disbursement in Rumbek will begin in April 2005. Group formation and loan disbursement is a continuous process.

Task 3.4: Extend salary loans in Rumbek.

The AEFP team will assist the MFI staff to extend the salary-guaranteed loan product to the Rumbek branch. This will begin with making presentation to those institutions whose employees have expressed an interest. The institutions will then sign a memorandum of understanding with SUMI to guarantee payment directly.

Task 3.6: Pilot test third loan product in Yei.

The pilot testing of the individual loan product will continue to be monitored, and adjustments done accordingly.

C4. Subcomponent 4: Training

Because of the importance of training in this microfinance initiative, we have included it as a separate activity, though it will be fully integrated with the MFI operational development activities in subcomponent one, above. Training activities are a critical counterpart to establishing and developing the MFI operations, as well as expanding the MFI's geographical coverage and developing and delivering each of the loan products.

Subcomponent 4: Tasks completed in the tenth quarter, January 1 – March 31, 2005:

Task 4.3: Train SUMI Loan Officers.

Three SUMI loan officers attended a one week Delinquency Management and Loans Monitoring training at the Uganda Institute of Bankers in Kampala.

Subcomponent 4: Tasks to be completed in the eleventh quarter, January 1, – March 31 2005:

Task 4.4: Training staff in computerized MIS.

The training of SUMI staff in the computerized management information system (MIS) during the eleventh quarter is subject to the contract modification expected from USAID.

Task 4.4: International Training for managing director and/or others.

From May 17 – June 2 2005, AEFP will facilitate the training of SUMI managers and board members in microfinance at the Uganda Martyr's University near Kampala.

C5. Subcomponent 5: Microfinance Policy and Regulation

As SUMI is setting up operations, SPLM policymakers have been developing a financial regulatory framework for South Sudan. A Financial Institutions Act, a Business Law, and an NGO Law have all been recently signed and put in place. It will be critical for the AEFP program to stay abreast of these policy developments and their implementation, especially as they will affect how microfinance is regulated. When called upon, Sudan AEFP staff will provide guidance and resources to assist in the policy development process as it affects microfinance. The tasks for this subcomponent are necessarily broad, as the exact nature of the policy assistance will need to be agreed upon with the SPLM and USAID.

Subcomponent 5: Tasks completed in the tenth quarter, January 1 – March 31, 2005:

Task 5.1: Liaise with SPLM policymakers regarding microfinance policy.

A report of the mid-term review of the AEFP program conducted in September was distributed to

stakeholders and interested parties within the SPLM.

Subcomponent 5: Tasks to be completed in the Tenth quarter, January 1 – March 31 2005:

Task 5.1: Liaise with SPLM policymakers regarding microfinance policy.

The AEFPP chief of party, microfinance specialist, and SUMI Managing Director will continue to liaise with the relevant SPLM authorities regarding financial and micro-financial policy in South Sudan. The AEFPP COP will continue to attend and report at regular TTF meetings.

C6. Subcomponent 6: Program Management and Reporting

The third year will require a number of program management and reporting activities, as required in the Chemonics' contract and agreements made with the PSC and TTF. Activities in this subcomponent for the Tenth quarter are listed below.

Subcomponent 6: Tasks completed during the Tenth quarter, January 1 – March 31, 2005:

Task 6.1: Submit quarterly report.

The quarterly report for the Ninth quarter, October 1 through December 31, 2004, was submitted to USAID and the TTF.

D. Performance

Current status vs. expected end of contract results.

Chemonics International is committed to establishing a self-sustaining microfinance institution (MFI) in Southern Sudan by the end of the 5-year contract in September 2007. Below, each project result is listed, followed by its current status:

Expected end of project results:

- *\$3 million in outstanding loans by the end of the fifth year.*

Current Status: By the end of March 31, 2005, 2,428 cumulative group loans had been disbursed as follows:

- 1,344 first loans
- 719 Second loans
- 253 third loans.
- 112 fourth and fifth loans.

Additionally, 21 individual loans have been disbursed in Yei and Yambio and 609 salary loans had been disbursed to employees of organizations based in all the three branches (Yei, Maridi and Yambio). The value of the cumulative disbursements amount to Ush. 993,134,500 (\$577,404), with an outstanding loan balance of Ush. 367,695,339 (\$213,776). Additionally, Ush. 69,929,077 million (\$40,482) had been collected in compulsory savings from 2,079 clients of the group and salary loan products. Approximately 38 percent of the total client

population is women. (An average exchange rate of Ush. 1720/\$1 has been used.)

- *100 percent operational sustainability, through complete coverage of operating costs of administration and expendable supplies.*

Current Status: Yei branch maintained its high sustainability by covering 117% of its operating costs in March 2005. Cumulatively Yei had covered 73% of its total operating costs since inception. This was up from 69% realized by December 2004. The branch is now financing most of its operations after a gradual phase out of the grant. The sustainability index is expected to maintain an upward trend due to an increased portfolio attributed to higher salary loans and bigger repeat loans.

On the other hand, Maridi and Yambio branches were able to cover 57% and 66% of their March costs respectively. Overall Maridi is covering 29% of its total costs since inception, while Yambio is covering 28%. Maridi has experienced very slow growth owing to an arrears problem that crept in at an early stage of the branch development. This stunted portfolio growth which in effect reduces the income generated by the branch. The arrears problem has now been controlled and the branch is embarking on a renewed client recruitment drive.

- *At least three loan products available to clients by the end of the fifth year.*

Current Status: SUMI has two loan products that have been operational for at over one year – a group loan and salary guaranteed loan. Both products are functioning well in the market. The salary loan was initially tested in Yei, but now it has been extended to Maridi and Yambio where it still performing very well. Yei and Yambio branches are currently being used to pilot test an individual loan product that targets small scale entrepreneurs.

To reach these results, Chemonics is also intent on assisting the new Sudanese MFI to meet the following operational and social development parameters:

- *50 percent of loans made to women*

Current Status: Of the 2,079 clients registered in four SUMI branches, about 38 percent are women. There is an 8% increase in the number of female clients since the last quarter, when the ratio was 30% women. This is attributed to the high number of women recruited in Rumbek, where the ratio of women is higher than that of men. Rumbek has 57% female clients. Yei branch has also increased its ratio of female clients to 41%. Maridi has the lowest percentage of female clients with 21%.

- *10 percent of loans made to reintegrated IDPs and returned refugees*

Current Status: From the client registration documents more than 10 percent of SUMI group loan clients are returned IDPs and over 50 percent are returned refugees, which exceed the projects target of 10 percent.

F. Financial Report

The following expenditures have been incurred under the AEFPP contract:

Contract value:	\$6,977,168
Expenditures through December 31, 2004:	\$3,032,941
Expenditures this quarter, January 31 – March 31, 2005:	\$ 428,761.52
Cumulative expenditures to date (Thru 3/31/05)	\$ 3,515,465.48
Contract Funds Remaining:	\$3,461,702.52

Funds currently obligated, as of March 31, 2005:	\$5,550,000
Obligated funds remaining:	\$ 2,034,534.52 (37%)

AEFP's current financial status according to the budget breakdown in the AEFPP contract is as follows:

Cost Elements	Budget	Expended to Date (Thru 3/31/05)	Contract Funds Remaining	Percent of Funds Remaining
Chemonics Direct Costs	\$2,230,988	\$1,990,574.66	\$240,413.34	10%
Chemonics Indirect Costs	\$1,083,840	\$770,260.79	\$313,579.21	29%
Operating Costs of Sudanese MFI	\$ 546,500	\$313,887.51	\$232,612.49	42%
Microfinance Loan Fund	\$3,000,000	\$346,901.25	\$2,653,098.75	88%
Fixed Fee	\$ 115,840	\$93,841.27	\$21,998.73	19%
GRAND TOTAL	\$6,977,168	\$3,515,465.48	\$3,461,702.52	50%

* Includes disbursements out of the Loan Capital account in Uganda through an advance disbursement mechanism set up with USAID.

Annex A:
AEFP Year Three Work Plan Chart

Annex B:
Sudan Microfinance Institution (SUMI)
Client Stories



Mr. Sunday Bismark runs a general store in Yambio in Southwestern Sudan. He is one of SUMI's hard working clients, proving day in and day out the benefits of microfinance services for poor merchants. Having successfully repaid two loans from SUMI, he now is utilizing a third loan to increase his stock and enable him to expand his business, adding soap to his inventory. He feels that the financial services SUMI is providing to micro-entrepreneurs have raised the standard of living of local businesspeople in Yambio county. He plans to continue as a client with SUMI and hopes to eventually construct both a permanent shop structure and a better home with future increased profits.

He does point out that flexibility from SUMI would be greatly appreciated. A new loan product with an extending repayment period, for example, would be very appealing to traders who must travel great distances to buy their wares for sale in Yambio.



Miss Yodita William owned a teahouse/restaurant when she heard about SUMI services. Thanks to two loans from SUMI, she now a partner with her brother Abdraham and sells mixed goods, in addition to running her thriving restaurant. According to Ms. Yodita, the SUMI program has helped her to diversify into other income generating activities after only two loans.

She wishes to appeal to fellow women to borrow from SUMI in order to improve their livelihoods.

Annex C:

SUMI Monitoring Form
&
Income Statement
